

CABNET HOLDINGS BERHAD (1121987-D)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT – FIRST QUARTER ENDED 31 MARCH 2019

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORT

A1 Basis of Preparation

This condensed consolidated interim financial statement (“Condensed Report”) is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting, Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”).

This Condensed Report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018. The explanatory notes attached to the Condensed Report provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2018.

A2 Significant Accounting Policies

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted as disclosed in the audited financial statements for the financial year ended 31 December 2018, except for the adoption of the following that are effective for financial statements effective from 1 January 2019, as disclosed below:

MFRS, Amendments to MFRS and IC Interpretation
MFRS 16 Leases IC Interpretation 23 Uncertainty over Income Tax Treatments Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures Amendments to MFRS 9 Prepayment Features with Negative Compensation Amendments to MFRS 3 Annual Improvements to MFRS Standards 2015-2018 Cycle Amendments to MFRS 11 Annual Improvements to MFRS Standards 2015-2018 Cycle Amendments to MFRS 112 Annual Improvements to MFRS Standards 2015 - 2018 Cycle Amendments to MFRS 123 Annual Improvements to MFRS Standards 2015 - 2018 Cycle Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement Amendments to References to the Conceptual Framework in MFRS Standards

The adoption of the above pronouncements does not have any material financial impact to the Group except for MFRS 16 as disclosed in Note B10.

The Group has not early adopted any new or revised standards, amendments or IC Interpretations which are applicable to the Group that have been issued by the MASB but are not yet effective for the Group’s current financial year ending 31 December 2019.

A3 Auditors’ Report of preceding annual financial statements

The preceding year’s audited financial statements of the Group did not contain any qualification.

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A4 Seasonal or Cyclical Factors Affecting Operations

The principal business operations of the Group are not significantly affected by any seasonal or cyclical factors.

A5 Unusual Items Affecting the Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group for the current financial quarter under review.

A6 Material Changes in Estimates

There were no changes in estimates that have a material effect in the current financial quarter under review.

A7 Changes in Debt and Equity Securities

There were no issuances, cancellations, repurchase, resale or repayment of debts and securities during the financial period under review.

A8 Dividends paid

No dividend has been paid during the current quarter under review.

A9 Segmental Reporting

(i) Operating Segments

Information about operating segments has not been reported separately as the Group’s revenue, profit or loss, assets and liabilities are mainly confined to a single operating segment, namely building management solutions which comprise structured cabling, extra low voltage (“ELV”) systems and information technology services as a complimentary offering to building management solutions.

(ii) Geographical Segment

No segmental information is provided on a geographical basis as the Group’s activities are conducted primarily in Malaysia.

A10 Material Events Subsequent to the end of the Reporting Period

There were no material events subsequent to the end of the current financial period up to the date of this report that have not been reflected in this interim financial report.

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A11 Changes in the Composition of the Group

There were no changes in the composition of the Group in the financial period under review.

A12 Contingent Liabilities and Contingent Assets

As at 31 March 2019, save as disclosed below, the Group has no pending material contingent liabilities that, upon becoming enforceable, may have a material impact on our financial performance and or position.

	As at 31 March 2019
	RM'000
Guarantees given to third parties in relation to contracts and trade performance	1,868

The guarantees are tender bonds (on submission of tender) and performance bond (upon award of contracts). To date, our Group has not experienced any enforcement of guarantees arising from non-performance of projects.

The Group has no contingent assets as at 31 March 2019.

A13 Capital Commitment

Capital commitment for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 March 2019 was as follow:

	As at 31 March 2019
	RM'000
Purchase of property, plant and equipment	2,950

A14 Significant related party transactions

There were no significant related party transactions in the current financial period under review.

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NOTES TO THE INTERIM FINANCIAL REPORT – FIRST QUARTER ENDED 31 MARCH 2019

PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1 Review of Performance

Comparison to preceding year corresponding quarter

For the first quarter ended 31 March 2019, the Group achieved consolidated revenue of RM13.27 million which was approximately 28.65% higher than the preceding year corresponding quarter. The increase in revenue were mainly due to the higher proportion of progress works for several major projects in the current quarter.

The Group recorded a profit after tax of RM443,000 for the current quarter as compared to RM893,000 in the preceding year corresponding quarter. The decrease in profit after tax was mainly caused by the higher proportion of progress works for several of the Group's major projects with lower profit margins coupled by the increase in administrative expenses in the current quarter

B2 Material Changes in Profit before Taxation for the Current Quarter with Immediate Preceding Quarter

	Current Quarter 31 Mar 2019 RM'000	Preceding Quarter 31 Dec 2018 RM'000
Revenue	13,269	15,778
Pre-tax profit before non-controlling interests	683	2,953

For the current quarter, the Group achieved revenue of RM13.27 million, representing a decrease of 15.90% as compared to the preceding quarter ended 31 December 2018. The decrease in revenue in the current quarter compared to the preceding quarter ended 31 December 2018 were mainly due to the higher proportion of progress works for several projects which picked up momentum in early October 2018 as well as a fast track project undertaken in the immediate preceding quarter. The pre-tax profit before non-controlling interests for the Group decreased from RM2.95 million for the preceding quarter to RM683,000 for the quarter under review mainly due to lower revenue and higher proportion of progress works for several major projects with lower profit margin coupled by the increase in selling and administrative expenses in the current quarter.

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PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B3 Prospects Commentary

The Group will continue to focus and strengthen its existing business while exploring new market segment for sustainability. Order book remains positive with an upward trend in the current quarter. Nonetheless profit margin might be affected due to new market penetration, competitive business environment and impact from reintroduction of Sales and Service Tax (“SST”).

Amidst challenging business operating environment, the Group continues to take the necessary initiatives to sustain its business and performance as follows:

- (i) To expand the Group’s business portfolio in Information and Communication Technology (“ICT”) to healthcare market segment and Data Center Solutions;
- (ii) To increase revenue generation from maintenance services contracts for long term sustainability;
- (iii) To continue its efforts on the improvement of the efficiency and effectiveness of Group’s operations; and
- (iv) Be more selective by tightening the pre-qualification process of new sales opportunity.

Barring any unforeseen circumstances, with the challenging operating conditions, the Board remains cautious for the remaining periods for financial year ending 31 December 2019 despite the positive order book of the Group.

B4 Variance of Actual Profit from Forecast Profit & Shortfall on Profit Guarantee

There is no profit forecast prepared for public release and no profit guarantee provided by the Group for the current financial period.

B5 Taxation

	Quarter ended 31.03.2019	Year-to-date 31.03.2019
	RM'000	RM'000
Income tax:		
- current period	204	204
Deferred tax	36	36
Tax expense	240	240

The effective tax rate for the current quarter and current period are higher than the statutory tax rate of 24.0% mainly due to certain expenses not deductible for income tax purpose.

B6 Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 23 May 2019 being a date not earlier than 7 days from the date of issue of this quarterly report.

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PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B6 Status of Corporate Proposals (Cont'd)

Status of Utilisation of Proceeds from the Initial Public Offering (“IPO”)

The status of utilisation of gross proceeds arising from the Public Issue of RM11.76 million as at 23 May 2019 being a date not earlier than 7 days from the date of this report is as follows: -

Purposes	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation: (Surplus)/ deficit RM'000	Balance RM'000	Intended time frame for Utilisation from the date of listing
Working capital - Purchase of equipment for projects	5,260	(6,002)	742	-	Within 24 months
R&D expenditure	500	(349)	*(151)	-	Within 24 months
Repayment of bank borrowings	3,000	(3,000)	-	-	Within 4 months
Estimated listing expenses	3,000	(2,409)	*(591)	-	Within 1 month
Total	11,760	(11,760)	-	-	

** The excess of RM742,000 was utilised for general working capital requirements of the Group.*

The utilisation of proceeds as disclosed above should be read in conjunction with the Prospectus of the Group dated 28 April 2017.

B7 Group Borrowings and Debt Securities

As at 31 March 2019, our Group's total outstanding borrowings, all of which are interest-bearing, were as follows:

	RM'000
(a) Short-term debt	
<u>Secured and guaranteed</u>	
Bank overdrafts	-
Bankers' acceptance	-
Finance lease payables	466
Term loan	26
Total short-term debt	492
(b) Long-term debt	
<u>Secured and guaranteed</u>	
Finance lease payables	380
Term loan	1,528
Total long-term debt	1,908
Total loans and borrowings	2,400

All the above borrowings are denominated in Ringgit Malaysia.

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B8 Changes in Material Litigation

There is no pending material litigation as at 23 May 2019 being a date not earlier than 7 days from the date of this quarterly report except for the following:-

(i) Shah Alam High Court (Construction Court) – Suit No. BA-24C-5-01/2019

Between Cabinet Systems (M) Sdn Bhd (“Plaintiff”), Dekad Kaliber Sdn Bhd (“1st Defendant”) and Rimarisan Sdn Bhd (“2nd Defendant”).

By way of Originating Summons, on 17 January 2019, the Plaintiff had initiated an action under Section 30 of the Construction Industry Payment and Adjudication Act 2012 (CIPAA 2012) against the abovementioned Defendants to obtain full payment of the adjudication sum of RM1,155,874.10.

Prior to this action, the Plaintiff had pursued adjudication proceedings against Synergycentric Sdn Bhd (“Synergycentric”) and obtained Adjudication Decision on 1 November 2018 which was in favour of the Plaintiff. However, Synergycentric has gone into liquidation and has not made any settlement to the adjudication sum. As such, the Plaintiff pursues an action against the principals of Synergycentric, i.e. 1st and 2nd Defendants under Section 30 of the CIPAA 2012.

The case managements were held on 5 March 2019, 29 March 2019, 4 April 2019, 2 May 2019 and 23 May 2019.

- (1) The 1st Defendant had filed for Extension of time (“EOT”) to allow its out of time affidavit to be accepted. In order to save time and cost, the Plaintiff had decided to request for cost instead of replying affidavit before the judge at the date of the hearing of the matter. On 2 May 2019, the Plaintiff had no objection on the EOT subject to cost which will be ventilated before the Judge. The Court then directed for the application for EOT to be heard on the same date as the hearing of the Originating Summons. The next date for case management is on 31 May 2019 for parties to fix a hearing date for both EOT application and the Originating Summons.
- (2) The 2nd Defendant had filed for striking out and EOT to reply the Plaintiff’s affidavit. The Court has directed for the 2nd Defendant’s striking out and EOT to be heard together. The Plaintiff will be objecting to both applications and parties are required to file submission accordingly before hearing fixed on 31 May 2019. The case management was postponed from 21 May 2019 to 23 May 2019. On 23 May 2019, parties informed the Court that all cause papers are in order and parties are prepared to go for hearing.
- (3) By way of Originating Summons, the next case management for Construction Court Suit is fixed on 31 May 2019.

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B8 Changes in Material Litigation (Cont'd)

(ii) Shah Alam High Court (Civil Division) – Suit No. BA-22NCvC-28-01/2019

Between Cabnet Systems (M) Sdn Bhd (“Plaintiff”), Dekad Kaliber Sdn Bhd (“1st Defendant”) and Rimarisan Sdn Bhd (“2nd Defendant”).

By way of a civil suit, on 17 January 2019, the Plaintiff had filed an action for breach of contract pursuant to the Sale and Purchase Agreement dated 18 July 2017 (“SPA”) between the Plaintiff and Synergycentric Sdn Bhd (“Synergycentric”) for a sum amounting to RM1,156,048.18.

This action is premised on Annexure 2 of the SPA. In Annexure 2 of the SPA, 1st Defendant has acknowledged and undertaken to pay directly to the Plaintiff upon Synergycentric’s failure under the SPA. To date, 1st Defendant has not made such payments.

The case management were held on 18 February 2019, 4 April 2019 and 17 April 2019 and the hearing was held on 21 May 2019.

- (1) The hearing for the 1st Defendant's Striking Out for the Writ Action was held on 21 May 2019. The decision for the striking out will be on 16 August 2019.
- (2) 2nd Defendant had filed an application to amend its defence and the Court has directed Plaintiff to file its reply to 2nd Defendant's amendment application by 3 May 2019 and the hearing is fixed on 3 June 2019.
- (3) The court has set trial tentatively on 19 and 20 August 2019 for the Civil Suit.

B9 Dividends

No dividends have been declared, recommended or paid during the quarter under review.

B10 Adoption of MFRS 16 - Leases

Upon adoption of MFRS 16, the Group is required to account for major part of its operating leases in the statement of financial position by recognising the ‘right-of-use’ assets and the lease liability, thus increasing the assets and liabilities of the Group.

The Group has assessed the financial impact on its financial statements upon initial application of MFRS 16. As allowed by the transitional provision of MFRS 16, the Group has elected the modified retrospective approach with no restatement of comparative and cumulative adjustments resulting from the initial application of MFRS 16 to be recognised in retained earnings and reserves as at 1 January 2019, as disclosed below:

	Adjustment at 1 January 2019 RM'000
Increase in right-of-use assets	177
Decrease in retained earnings	18
Increase in lease liabilities	(195)

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B11 Earnings/ (loss) per Share

The basic and diluted earnings per share are calculated as follows:

	Quarter ended 31.03.2019	Year-to-date 31.03.2019
Profit for the period attributable to ordinary holders of the Company (RM'000)	449	449
Weighted average number of ordinary shares in issue ('000)	178,750	178,750
Earnings per share (Basic & Diluted) (sen)	0.25	0.25

B12 Derivatives

The Group did not enter into any derivatives during the current quarter under review.

B13 Disclosure of gains/losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit and loss for the current quarter under review.

B 14 Authorised for issue

This interim financial statement was authorised by the Board of Directors in accordance with the resolution of the Directors on 28 May 2019.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)
Company Secretary
Johor Bahru
Date: 28 May 2019
c.c. Securities Commission